HOUSING MARKET OUTLOOK
St. John's CMA

CANADA MORTGAGE AND HOUSING CORPORATION

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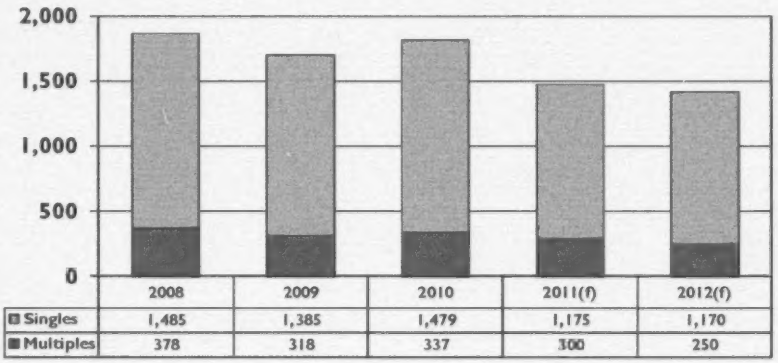
Housing Market Expected to Be Less Active

Robust consumer spending and growth in employment, income and population have buoyed the local housing market in recent years. These trends will likely remain in play for 2011, but current pricing and an increasing supply of active listings will contribute to lower levels of activity over the remainder of this year and next. The outlook for the St. John's housing market is solid. The record housing market activity observed during the last two years, however, will not be sustainable in 2011 and 2012.

Figure 1

New Home Demand Cools
Housing Starts- St. John's Region



	2008	2009	2010	2011(f)	2012(f)
Singles	1,485	1,385	1,479	1,175	1,170
Multiples	378	318	337	300	250

Source and Forecast: CMHC

Table of Contents

1 Housing Market Expected to Be Less Active
2 Economic Trends
2 Mortgage Rates
2 Resale Market
3 New Home Market
3 Rental Market
5 Forecast Summary
6 CMHC - Home to Canadians

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Economic Trends

Economic Outlook Remains Positive

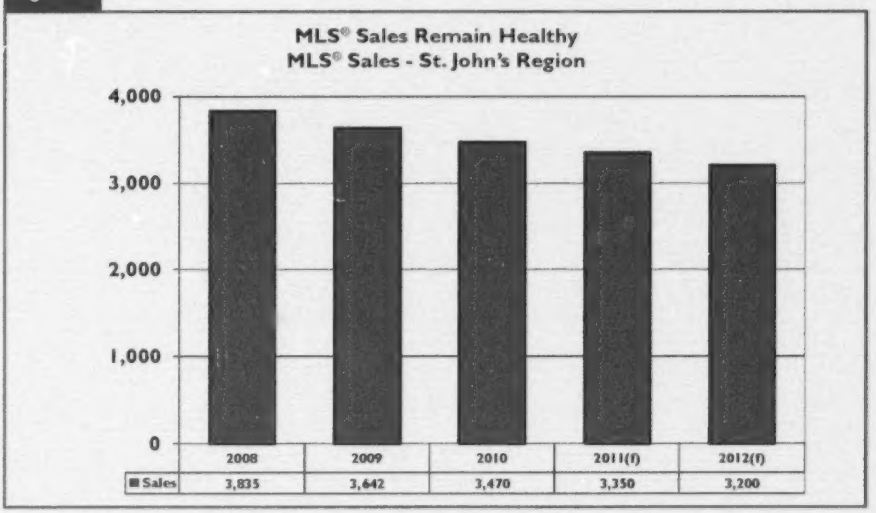
Energy and mining development will continue to be the main source of future economic growth. Several major capital projects will bolster the local economy and contribute to a positive outlook. Consumer spending will also remain a key component for economic growth over the forecast period. Provincially, expect 3.3 per cent GDP growth in 2011 and 3.4 per cent in 2012.

Increased commodity prices have provided a lift to mining companies in the interior of the province. This has resulted in stronger income growth, which has helped support retail trade as well as the housing sector.

The fishing industry will continue to impact Newfoundland and Labrador's rural economies, but population losses at the provincial level will moderate over the forecast period, as a result of strong economic conditions in St. John's. It is also expected that growing demand from seniors and a tighter rental market will continue to support multiple construction activity over the forecast period.

Natural declines in offshore oil production will constrain GDP growth in 2011-2012. However, the royalties from oil production received by the province will be used, in part, towards funding infrastructure spending programs and will still be supportive of economic growth. It is also expected that a number of additional resource related projects will add to economic growth.

Figure 2



Source: CREA; Forecast: CMHC
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Note: Eastern Region (St. John's) MLS® data unavailable prior to 2008 calendar year

Mortgage Rates

On April 12th, the Bank of Canada announced that it was leaving the Target for the Overnight Rate unchanged at 1.0 per cent. The last increase in the overnight rate occurred on September 8, 2010 when the Bank of Canada raised it by 25 basis points. The Bank of Canada is expected to resume raising the overnight rate in the fourth quarter of 2011. Mortgage rates, particularly short term mortgage rates and variable mortgage rates, are expected to remain at historically low levels.

According to CMHC's base case scenario, posted mortgage rates will remain relatively flat in 2011 before increasing moderately in 2012. For 2011, the one-year posted mortgage rate is assumed to be in the 3.1 to 3.5 per cent range, while three and five-year posted mortgage rates are forecast to be in the 4.1 to 5.6 per cent range. For 2012, the one-year posted mortgage rate is assumed to be in the 3.4 to 4.3 per cent range, while three and five-year posted mortgage rates are forecast to be in the 4.2 to 6.3 per cent range.

Rates could, however, increase at a faster pace if the economy ends up recovering more quickly than presently anticipated. Conversely, rate increases could be more muted if the economic recovery is more modest in nature.

Resale Market

Fewer MLS® Sales

Following record sales levels during the past few years, the St. John's area resale market is expected to post reduced sales activity this year and next. Accordingly, the forecast calls for MLS® sales of 3,350 units this year, with 3,200 sales expected in 2012. With most new homes selling through the MLS® system, lower residential construction activity will also contribute to the decline in total MLS® sales.

The 14.8 per cent rise in average price in 2010 was partly due to the increase

in new construction. Housing market activity was solid in 2010, but favoured buyers during most of the year. With demand expected to be lower over the forecast period, unit sales will remain historically strong, but will not match recent record levels. Resale market conditions in 2010 proved challenging for some sellers, as some offers were received well below list price. With increased inventory to choose from, many buyers fared well in their home search and in some cases, shifted away from higher-priced homes. The price premium on a new home compared to an existing home resulted in increased first-time buyer activity within the lower-priced resale market. This trend is expected to continue in 2011/2012.

Buyers' Resale Market

Historically, the St. John's area resale market has tended to be balanced. However, stimulus from capital project announcements and positive net-migration to the St. John's region positioned the market to favour sellers in 2008. The onset of global economic uncertainty in the fall of 2008 caused a very strong local sellers' market to weaken from its third quarter peak and the market subsequently transitioned to buyers' conditions by the end of the year. From there, it fluctuated in and out of buyers', balanced and sellers' conditions throughout 2009, before settling into buyers' throughout most of 2010.

In terms of unit sales, the market declined from May onward last year with a hefty increase in new and active listings throughout the second half. The higher number of listings resulted in few multiple offers and sale prices coming in at approximately 98 per cent of asking price. Inventory increased 17 per cent and listings stayed on the market 63 days on average. Prices peaked during the third quarter of 2010 and have been flat since then. The sales-to-active listings ratio favoured buyers in the second half of the year. The combined impact of these variables will result in the local resale market ranging from buyers to balanced market conditions for the remainder of this year and into 2012.

Moderate Price Growth

With the local resale market favouring buyers, the expectation is for moderate price growth in 2011-2012. After two years of very strong growth, the average MLS® house price is forecast to be $263,000 for 2011, an increase of 4.7 per cent over 2010's average of $251,191. The average price will see marginal growth of 2.1 per cent to $268,500 in 2012. The typical move-up buyer's preference for two-storey homes will continue to support price growth in this segment over the forecast period. Bungalows and semi-detached units are expected to remain attractive homeownership choices for first-time buyers.

New Home Market

Lower Construction Activity

Although new home construction activity will be lower, it will still be supported by solid economic and demographic trends, capital project activity, as well as continued population growth within the St. John's region. Recent activity levels, however, will not continue and the market will likely take a breather. Price growth will be constrained in the new home market for the remainder of this year and next. Accordingly, new home prices will end 2011 up about 4.5 per cent to $340,000 and reach $347,000 in 2012, up 2.1 per cent.

With an excess supply of new homes for sale, total housing starts are forecast to decline about 19 per cent this year to 1,475 units within the St. John's region and 3.7 per cent in 2012 to 1,420 units. Although lower, construction activity will still be near the current ten-year average of 1,512 units.

Multiple Starts Activity to Remain Flat

Growing demand from seniors and a tighter rental market will limit declines in multiple construction activity over the forecast period. The multiple unit segment of the market is expected to see 300 units constructed this year declining to 250 units in 2012. With high construction costs and longer build times, the number of new single-detached homes with basement apartments will remain low, as buyers opt for less expensive single unit homes or choose to add the apartment unit themselves.

The mid-priced local condo market is developing much slower than expected, but smaller households and a rapidly aging population continue to support demand for condo units in St. John's. The expectation is for those downsizing to sell their home and buy a condo without a mortgage. Recent condo price growth, however, has made this move difficult to achieve. Considerable house price growth in recent years, specifically in the single-detached segment, will continue to shift demand towards the semi-detached segment of the market.

Rental Market

Vacancy Rate to Remain Low

Several demand factors will keep the vacancy rate low this year and next. With recent growth in house

prices, the movement of renters to homeownership will remain limited. Also, increased economic activity will continue to have a positive impact on the in-migration of workers to the St. John's area from other areas of the province. Memorial University and local colleges will continue to draw students, who traditionally rent within the region as well.

Investment in new multi-unit apartment developments is expected and will begin to increase the supply of apartments in 2011-2012. However, before a significant increase in large-scale developments occurs in the local market, average rents need to rise in order to offset high development and construction costs. Accordingly, the vacancy rate for surveyed structures containing three or more rental units (two-apartment homes excluded) is forecast to remain low at 1.3 per cent in 2011 and rise marginally to 1.5 per cent in 2012. With the vacancy rate remaining low, expect demand to continue to push surveyed average two-bedroom monthly rents to $775 by the end of this year and to $825 in 2012.

Forecast Summary St. John's CMA Spring 2011							
	2008	2009	2010	2011f	% chg	2012f	% chg
Resale Market							
MLS® Sales	3,835	3,642	3,470	3,350	-3.5	3,200	-4.5
MLS® New Listings	5,783	5,799	6,332	6,500	2.7	6,000	-7.7
MLS® Average Price ($)	187,571	218,862	251,191	263,000	4.7	268,500	2.1
New Home Market							
Starts:							
Single-Detached	1,485	1,385	1,479	1,175	-20.6	1,170	-0.4
Multiples	378	318	337	300	-11.0	250	-16.7
Starts - Total	1,863	1,703	1,816	1,475	-18.8	1,420	-3.7
Average Price ($):							
Single-Detached	230,473	281,803	325,436	340,000	4.5	347,000	2.1
Median Price ($):							
Single-Detached	215,372	260,000	299,904	313,500	4.5	320,000	2.1
New Housing Price Index (% chg.)	19.6	11.5	5.9	3.0	-	3.0	-
Rental Market							
October Vacancy Rate (%)	0.8	0.9	1.1	1.3	-	1.5	-
Two-bedroom Average Rent (October) ($)	630	677	725	775	-	825	-
Economic Overview							
Mortgage Rate (1 year) (%)	6.70	4.02	3.49	3.23	-	3.76	-
Mortgage Rate (5 year) (%)	7.06	5.63	5.61	5.45	-	5.94	-
Annual Employment Level	98,600	98,600	100,900	104,250	3.3	106,000	1.7
Employment Growth (%)	3.7	0.0	2.3	4.5	-	4.0	-
Unemployment rate (%)	7.8	8.3	7.7	6.5	-	6.0	-
Net Migration	2,101	2,231	2,262	2,200	-2.7	2,000	-9.1

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Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

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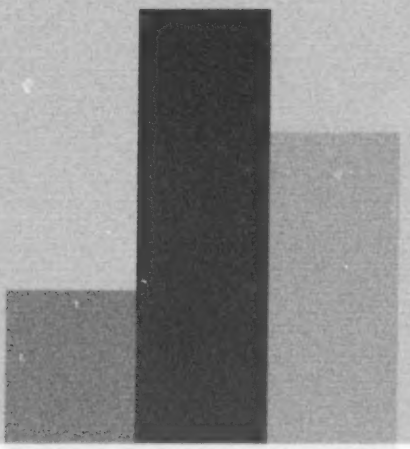

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